COMMON MYTHS ABOUT INTERNET TAXATION

MYTH: The Internet is a tax-free shopping oasis under the Internet moratorium.

FACT: Taxes already apply to e-commerce, the same as they apply to catalogue and mail order sales. Additionally, each time you access the Internet you are paying myriad telecommunication taxes.

Usage taxes, present in 45 states, are an existing tax structure used by states to collect so called “lost” revenues.

MYTH: Most Internet transactions are for goods that would be taxed otherwise.

FACT: A significant number of online retail purchases, such as travel and financial services, are services not subject to sales tax in any form, electronic or otherwise.

MYTH: Implementing a tax on Internet sales levels the playing field.

FACT: Tax collection under our current tax structure in 7,600 authorities would be nothing short of cumbersome.

In order to “level the playing field” states would have to streamline their tax structures to make Internet taxation a possibility, resulting in a de facto National Sales Tax.

Efforts like this would reduce competition between tax rates among local authorities and limit the control that tax authorities have over establishing and defining their own tax rates.

MYTH: Consumers are willing to pay an Internet Tax.

FACT: In 1998, economist Austan Goolsbee found that the number of online shoppers would fall by 25 percent and the amount of dollars spent would plunge by 30 percent if existing sales taxes were applied to Internet purchases.

Just last year, a poll of 1,016 America Online subscribers found that two-thirds said “they'd be a lot less or a little less likely to shop online if their purchases were subject to a uniform sales tax.”

According to Zogby International polling data released on August 15, 2001, 66% of those polled oppose Congressional consideration of a law which would

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force Internet merchants to begin collecting sales tax.

MYTH: I can avoid paying tax by making an online purchase from an in-store kiosk or by visiting Company X's Web site instead of going to their local store to make the same purchase.

FACT:

Many online transactions are for goods such as groceries that require the seller to have a "bricks and mortar" presence in the buyer's state in order to collect the sales tax, where the states already have an authority to tax sales.

In more than 40 states, you would be required to report all of your online, telephone, television and catalog purchases to your tax authority and pay a usage tax on that purchase.

MYTH: Cities and states are losing a large portion of their taxable revenue base to the Internet.

FACT: The General Accounting Offices, in a report issued in 2000, noted "little empirical data exist on the key factors needed to calculate the amount of sales and use tax revenues that state and local governments lose on the Internet and other remote sales. What information does exist is often of unknown accuracy."

As Senator Wyden so astutely pointed out during his introduction of the Internet Tax Nondiscrimination Act, "Not a single community has come forward and proved that it is being injured by its inability to impose discriminatory taxes on electronic commerce. There is no evidence that the states have lost revenue by technology driven economic activity."

MYTH: Cities, states and counties desperately need to hang on to their right to tax the Internet in order to provide necessary services.

FACT: Most every state in the nation is reporting a surplus and does not need extra revenue. According to a report by the National Conference of State Legislatures (NCSL), states had a $5.5 billion surplus for 1999. The report found that "...this is the third straight year that most states have faced decisions on how to allocate these excess revenues."

According to figures compiled by the CATO Institute, last year revenues from personal income taxes rose 12.4 percent; sales taxes rose 7.3 percent; and corporate income tax went up 4 percent.

Twenty-one states have chosen to cut taxes and lower their existing sales tax collections by a total of $1.6 billion. This decision represents a $1.6 billion net loss in sales tax revenues, approximately 1,000 percent more than the e-commerce losses that are projected by the National Center for Policy Analysis.

MYTH: E-Commerce is killing "Main Street" businesses.

FACT: Online retail sales are a small fraction, according to the Department of Commerce, who reported that retail e-commerce sales for 2000 accounted for less than .8 percent of all retail sales.

A study by the prestigious accounting firm of Ernst and Young concluded that the Internet was not hurting local businesses to any significant degree.

On the contrary, the Internet is enhancing "Main Street" sales according to a 1998 Cyber Dialogue study that concluded the Net is more valuable as a source of information than a source for online purchases.

Cyber Dialogue reports that consumers spent $3.3 billion shopping online for goods and services. The study found that consumers spent even more money, $4.2 billion, making offline purchases after getting product information online.

The Internet offers "Main Street" businesses an opportunity to open their storefront to the world, reaching customers that they wouldn't ordinarily have, all without expending monies for additional employees and other overhead costs.

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1. From testimony presented by Jeff Dircksen, Director of Congressional Analysis, National Taxpayers Union and Foundation, March 14, 2001